

WATERMARK

FEDERAL EMERGENCY MANAGEMENT AGENCY

WYO Program Celebrates 15 Years

On August 16, 1983, FIA extended an invitation to all licensed property/casualty insurers to participate in the Write Your Own (WYO) Program for Fiscal Year 1984 (October 1, 1983-September 30, 1984). By the end of the first recruitment period, 48 companies had signed up to place and service flood insurance under their own names on a risk free basis. A new Federal program designed to better protect Americans vulnerable to flooding had been born.

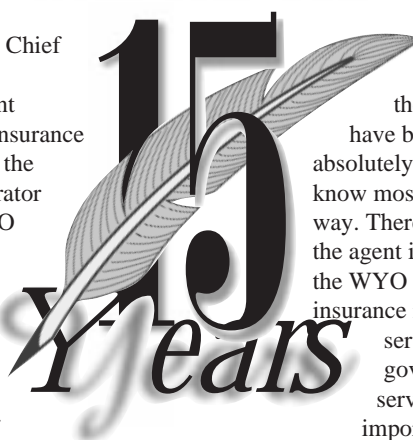
"A joint team of FIA and industry leaders spent 18 months constructing the Write Your Own Program, and it was a difficult challenge," says Jeffrey S. Bragg, Chief Operating Officer for Insurance Management Solutions Group (an insurance outsourcing firm) and the former FIA Administrator who initiated the WYO Program.

"We did not have the unanimous support of the insurance industry, we did not have the unanimous support of the Congress, and we did not have unanimous support even within FIA at the time, so it was a difficult program

to put in place. Fortunately, we had a lot of good people from the insurance industry who agreed that it was important to implement a program like this. Without their help, it wouldn't have been done. But it was absolutely worth it, and I know most people feel that way. There is no question that the agent is better served by the WYO Program, the insurance industry is better served by it, the government is better served by it, and most importantly, the consumer is better served by it. Most observers feel that the WYO Program has been a tremendous success."

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Write Your Own



1983 • 1998

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Improved Website Provides Easier Access to NFIP Information

Wouldn't it be great if you could find out almost everything there is to know about the National Flood Insurance Program in just one place? We thought so, too. That's why we made information available through the NFIP website in January 1998. And now, it's even better. We have made changes to our site to make it easier for you to find information.

What's New?

In the year that the site has been live, we have received questions about where to find information within the

site that have prompted us to reorganize the information so it's easier to find.

In addition to this reorganization, we are making changes throughout the site to make the information easier to read and to understand. We are also making the information on the homepage more timely and plan to update it frequently. This includes new links to FEMA's information about current flood disasters, such as hurricanes and other storms. At the bottom of the homepage, we have added a box called Quick Links. This is

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Message from the Administrator

Dear *Watermark* Readers,

This year, devastating floods caused by El Niño, La Niña, hurricanes, and other storms have damaged homes and businesses all across the country. As the victims of these floods begin the grueling task of flood recovery, their understandable impulse is to rebuild as quickly as possible and put the nightmare behind them. But as Federal Insurance Administrator, I can't stress enough how important it is to rebuild in a manner that can prevent or reduce future damage from flooding.

As insurance agents, lenders, and state and local officials, you play a critical role in making sure that flood victims know to contact their local government and get a building permit before rebuilding. Many communities require that if a structure is damaged to a great extent, it must be rebuilt to current elevation requirements. Insurance agents are especially important in getting this message to flood victims, as you are often the first people whom victims call for assistance after a flood.

It is essential that flood victims contact their local government for a building permit so local officials can guide the rebuilding of flood-damaged homes and businesses in ways that will avoid or reduce damage the next time a flood occurs. Floods are far-reaching, as we've all seen, and they can happen in areas where the coverage isn't required by law. You can help make sure that people, even those outside of high-risk areas, understand the benefits of flood insurance.

Flood insurance coverage provides reimbursement to repair the physical damage from flooding, and any flood policy bought or renewed since June 1997 provides a new coverage—Increased Cost of Compliance. This added coverage provides \$15,000 toward the cost of bringing a flood-damaged structure into compliance with current State or local floodplain management ordinances designed to eliminate or reduce future flood damage. Make sure your current and new clients know about this important benefit.

As the Federal Insurance Administrator, I've seen cases where homes are flooded over and over again, only to be repaired at the same level of risk. It doesn't make good sense to rebuild without first making sure the structure will be more disaster-resistant in the future. Flood victims need only take the time to work with local and State officials to make their homes and businesses safer from flood damage. Together, we do a lot to help flood victims get back on their feet quickly, but let's make certain that these buildings are safer and more disaster-resistant after rebuilding than they were before the disaster.

Jo Ann Howard
Administrator
Federal Insurance Administration

Watermark Subscription and Submission Information

Watermark is a publication intended primarily for insurance agents who write flood insurance, but it contains information about the NFIP that may be helpful to other groups involved with the Program.

We want to make sure that we are providing information that meets your needs. We welcome your comments and suggestions, as well as submissions for articles and departments.

Additionally, we encourage you to reproduce articles and departments contained in the *Watermark* and include them in your own newsletter or other communication.

Send your questions, comments, suggestions, and submissions to Amie Coxon Ware:

FEMA/MWEAC
Building 205
P.O. Box 129
Berryville, VA 22601
fax (540) 542-4132

Members of Congress with questions about the National Flood Insurance Program, please write to:

FEMA
Office of Congressional Affairs
Room 820
500 C Street, SW
Washington, DC 20472

If you would like to receive additional copies of this twice-yearly publication, or if you know someone who would like to be on our mailing list, send your request to:

Watermark Subscriptions
NFIP Bureau and Statistical Agent
P.O. Box 710
Lanham, MD 20703-0710
or fax your request to:
(301) 918-1471

The current issue and selected back issues of the *Watermark* are available on the Internet at <http://www.fema.gov/nfip/>.

WYO Program Celebrates 15 Years *Continued from page 1*

WYO Emerges As NFIP's Cutting Edge

Burgeoning land development in the 1950s and 1960s occurred not only in areas that were high and dry, but also along coastlines and riverways. And as America's housing and commercial stock grew, so did the potential for flood disasters, with substantial taxpayer subsidy to cover skyrocketing disaster assistance costs.

According to Martin W. Dourney, President and Chief Operating Officer of Omaha Property and Casualty, the first company to join the WYO Program, underwriting flood risks was not an option for insurance companies before Congress established the National Flood Insurance Act of 1968.

"The major reason insurance companies didn't offer coverage against flooding prior to the creation of the NFIP was the overwhelming catastrophic nature of floods from a financial perspective," Dourney explains. "Because there is usually a large concentration of very high losses in a relatively small geographic area, flood is very difficult to underwrite and very difficult to price adequately. Most companies weren't willing to expose their surplus to those kinds of losses."

The intent of the National Flood Insurance Act was to decrease the damage caused by floods while reducing the high cost to taxpayers for Federal assistance for uninsured flood losses. To do that, federally backed flood insurance was made available in communities that voluntarily agreed to adopt and enforce floodplain management ordinances designed to reduce future flood losses.

For the first 10 years of the NFIP, flood insurance was serviced by private property/casualty insurance companies

in cooperation with the Federal government. However, in 1978, much of the NFIP's policy and claims processing was turned over to a private contractor while the Federal Insurance Administration (FIA) closely monitored Program activities and continued to underwrite the payment of

"All you have to do is visit an area after a flood and look at all the sad faces to see the misinformation that has been given out on the peril of flooding....People thought they were never going to need flood insurance, but the only remedy some will have is a limited amount of disaster assistance, which is a burden on the taxpayer. Flood is a misunderstood peril, and we've still got a lot of work to do, but the WYO Program has managed to double the policy base in the last 15 years. I think that the WYO Program is a great example of less government involvement by privatizing and partnering with the industry to produce savings and better service to the consumer without saddling taxpayers with the burden of disaster assistance. The consumer benefits, and the taxpayers benefit."

David Meehan, President of Banker's Insurance Group, Chairman of Insurance Management Solutions Group, and Chairman of the WYO Marketing Committee

all insurance claims. In 1979, FIA was placed under the administration of the newly formed Federal Emergency Management Agency. During the next 4 years, the number of NFIP policies in force continued to grow, but not rapidly.

In 1981, then-FIA Administrator Jeffrey S. Bragg spearheaded an initiative to reinvolve the private sector in flood insurance. After 18 months of consulting with insurance industry leaders about how to develop the new WYO Program, obtaining industry

commitments to the project, and negotiating terms of the Program's operation, FIA launched the WYO Program.

WYO Program Based on a Working "Arrangement"

Insurance companies interested in participating in the WYO Program begin by signing the Federal government's partnership arrangement for each fiscal year, called the Financial Assistance/Subsidy Arrangement (known as the "Arrangement"). The Arrangement commits insurance companies to selling flood insurance by issuing policies in their own names and by taking responsibility for all aspects of servicing those policies such as policy administration (policy issuance, endorsements, renewals), claims processing, and marketing.

WYO Companies collect the premium for the flood insurance policies they sell, retaining a base of 31.6 percent of the premium to cover agent commissions and servicing expenses, and investing the remainder of the premium income. If a WYO Company pays out more in claims than it receives in premium and investment income, the company is reimbursed for the difference through a Federal Letter of Credit. At the end of the Arrangement year, any premium balances that exceed losses, commissions, and expenses are turned over to the U.S. Treasury.

Any insurance agent representing a company that participates in the WYO Program can offer any eligible consumer a Standard Flood Insurance Policy or Preferred Risk Policy whose rates and terms are established by the NFIP. Following the standard company procedures, the agent signs the policy, collects the premium, and provides any additional services should a loss occur.

WYO Program Enhances NFIP Success

When the WYO Program was implemented in 1983, the NFIP had

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WYO Program

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nearly 2 million policyholders, although an estimated 8 million floodprone buildings were located across the United States. After 15 years of offering flood insurance, the WYO Program has more than doubled the number of NFIP policies in force. Today, more than 130 parent companies and their subsidiaries and affiliates service nearly 94 percent of the 4,100,706 NFIP policies in force throughout the United States, Puerto Rico, Guam, and the Virgin Islands.

Not only has the policy base grown dramatically since the WYO Program was implemented, but also the quality of service offered to consumers has risen.

"Because you have more resources available, I'd say that the WYO Program has improved the NFIP's ability to respond to flood disasters and settle claims quickly," affirms John Robinson, Vice President of Underwriting for State Farm Property and Casualty Insurance Company and chairman of the WYO Standards Committee. "When the NFIP was handled through the Federal government or its servicing carriers, it had limited resources. By getting the insurance companies involved, in effect you devoted the resources of each of those companies to the WYO Program. I think that the service today is much quicker and more professionally handled on a routine basis in a manner similar to any other insurance loss. Just by the synergy between the government and the industry, you devote more resources to the problem."

According to Omaha's Martin Dourney, it is service to the policyholders that is fundamental to the success of every line of insurance offered by the industry. And, it is this aspect of the WYO Program that makes flood insurance an attractive

addition to any agent or company's portfolio.

"With the flood program, price is not an issue as everyone charges the same price [according to the Federal guidelines]," he explains. "So the insurance industry, being a very

WYO Program Goals

- Increase the NFIP policy base by using insurance industry marketing access not directly available to FIA, as well as to increase the geographic distribution of flood insurance policies
- Improve service to policyholders and insurance agents through the infusion of existing insurance industry communication and services
- Provide insurance companies with operating experience under the NFIP
- Increase the Program's ability to respond to flood disaster events and settle claims promptly

competitive industry, has had to focus on improved processes and improved service in marketing flood insurance. In fact, the competition that companies have experienced in other product lines has transcended into flood. By working diligently to improve service to customers at their time of need, some companies are doing extremely well and are becoming known for their responsiveness and caring. Word of mouth begins to take over. I'm not so sure that this existed with flood insurance prior to the WYO Program. When someone loses everything or nearly everything, they become disoriented and confused and there is some reassurance when the adjuster shows up and says, 'this is what is covered and we'll begin working on it.' It is a support system, if you will, that goes well beyond just the piece of paper that the flood contract is written on."

It is not just consumers and the Federal government who benefit from the WYO Program, according to former FIA Administrator Jeffrey Bragg. "WYO Companies have benefited from participation in the Program from the standpoint that they've been able to offer a complete insurance package so that when they sell auto and homeowner's insurance, they can be the single source for all of the client's needs. This has helped the WYO Companies in the marketplace by helping them compete against some others who offer only one or two lines of insurance."

Future Changes

Delivering flood insurance to the consumers who need it most requires cooperation among the insurance and lending industries, public officials and a host of experts from mapping specialists to architects to developers to real estate agents. For 15 years, WYO Companies have provided a strong link in this chain, committing their time, resources, and knowledge to ensuring that property owners in their communities have access to financial protection against flood losses.

Jo Ann Howard, FIA's current Administrator, points out that the 15th anniversary of the WYO Program has fallen on the same year that the NFIP celebrated its 30th anniversary. "We have much to be pleased about with past successes, but we also see room for improvement," she says, explaining that the NFIP runs on OPM—Other People's Money—to pay claims and other program expenses. "This means that as fiduciaries of our policyholders, we have a high responsibility for how we spend their money. Working with the WYO Program, we want to provide the best service at the lowest cost.

"We have a busy 1999 and 2000 in the works: Call for Issues, Repetitive Loss Strategy, Mapping Initiatives, Financial Stabilization studies and

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Improved Website Access to NFIP

Continued from page 1

a list of items that visitors frequently ask about, such as How to Purchase and How to Pay for Flood Insurance, the Standard Flood Insurance Policy, and the *Mandatory Purchase of Flood Insurance Guidelines*; things that are new to the site, such as the Coastal Barrier Resources System database; and other important information, such as *Top 10 Things Every Consumer Needs to Know about Flood Insurance* and *Answers to Questions About the NFIP*.

What Information Is on the NFIP Website?

Our website has information that targets consumers, insurance agents, insurance companies, lenders, and state and local officials. To get to the section that applies to you, look at the sidebar and click on the appropriate button.

For instance, insurance agents can click on the button on the sidebar that says Information for Insurance Agents and get the information listed below.



You will also notice some new buttons on the sidebar. At the top is a new button called Site Index. When you click on this button, you will see a listing and a link to each major section within the site.

We have also added Ask the Expert, a new section where people can submit questions about flood insurance that will be posted, along with the responses, for all web visitors to read. This section can also be used by those who want to submit specific questions to be answered privately.

Another new button, Storm Watch, will link you to FEMA's webpage for the latest storm information. There's also a search engine for the NFIP section to help visitors find what they're looking for even faster.

- Flood Insurance Manual
 - Underwriting Information
 - WYO Companies
 - Agent Workshops
 - Flood Map Information
 - Community Status Book
 - Cost
 - How to Purchase and How to Pay
 - Marketing and Advertising Campaign
 - Community Rating System
 - National Flood Insurance Reform Act Information
 - Publications
- General information about the NFIP is available on our site, as well as links to information about flood mitigation and **Project Impact**. Here's what you'll find by clicking on some of the most used buttons.

- **About the NFIP**—A summary of the NFIP; text of all the

publications (fact sheets, brochures, and booklets) available on the site; information about the cost of flood insurance, and how to purchase and pay for flood insurance; flood map information; and more.


- **News and Updates**—Flood-related press releases; a listing of Flood Insurance Claims Offices, and upcoming conferences and workshops; the current issue of *Watermark*; monthly Cover America updates; and monthly statistics on flood insurance policies and claims.
- **Flood Insurance Library**—Laws and regulations related to the NFIP; the Standard Flood Insurance Policy and the *Flood Insurance Manual*; the Elevation Certificate and instructions; forms used to order materials; and a report archive for policy and claim statistics.

How You Can Use the Site

First and foremost, the information in the NFIP site has been designed to provide all NFIP stakeholders with quick access to current information. In an effort to improve communication and understanding of the NFIP and flood insurance, we have included special sections to target each of our stakeholder groups.

How else can you use this information? One suggestion is to go to the Information for Consumers section and adapt the information there for use in communicating the flood risks consumers face as well as the benefits of flood insurance to your current and potential clients, customers, and constituents.

Another idea is to establish or strengthen partnerships with other NFIP stakeholders in your community by using information from the specific sections or text from the publications in each section.

The NFIP website has something for everyone involved with the Program. Check it out today at www.fema.gov/nfip. 

Flood Coverages Available Through The Private Sector

Bruce Bender, American Bankers Insurance Group

One of the most well-attended workshops at the 1998 National Flood Conference was "Flood Insurance in the Private Sector: What's Out There." Attendees of this workshop received information about the types of flood coverage available through the private sector that are not available through the National Flood Insurance Program (NFIP). Although these coverages fill a need, panelists and attendees agreed that the NFIP still stands as the major and primary avenue for providing protection against the peril of flooding.

Bruce Bender of American Bankers Insurance Group moderated the panel, which featured Richard Brooks, an attorney with Computer Sciences Corporation (the NFIP's Bureau and Statistical Agent); a past FIA Administrator, Bud Schauerte; and the entertaining Englishman from Southwest Business Corp., Tony Hart.

The panel presented information about the types of private sector flood coverage available. A list of some of these follows.

Coverage That Is in Excess of the NFIP Limits

The limits of coverage available through the NFIP are \$250,000 for residential buildings, \$100,000 for contents of residential buildings, and \$500,000 each for non-residential buildings and their contents. Excess flood insurance provides coverage beyond those limits, ranging from \$500,000 to \$10 million. The maximum amount of flood insurance coverage available through the NFIP must be purchased before excess coverage can be purchased.

Coverage in Coastal Barrier Resources Act (CBRA) Areas

Coastal barriers are unique land forms that provide protection for diverse aquatic habitats and serve as the mainland's first line of defense against the impacts of coastal storms and erosion. Through CBRA, most

new Federal financial assistance, including federally backed flood insurance, is prohibited in a designated Coastal Barrier Resources System (CBRS). However, the law does not prohibit privately financed development or insurance. Limits of up to \$300,000 are available with coverages and deductibles similar to the NFIP; however, privately financed insurance typically requires property inspections.

Coverage for Homeowners in Communities That Do Not Participate in the NFIP

The National Flood Insurance Act of 1968 makes federally backed flood insurance available only in communities that adopt and enforce regulations to reduce future flood damage. This helps reduce both flood damage and taxpayer-funded disaster assistance payments by giving individuals the opportunity to buy insurance to pay for potential damage. Limits of coverage provided by insurance other than the NFIP can go up to \$250,000 on homes and their contents. Additional optional coverages include Loss of Use and ICC-type coverages. Typically, there are restrictions, such as no "V" zone or CBRA properties, to coverage offered through the private industry, and the building insured must be residential.

Coverage That Includes Other Catastrophes Such as Earthquake

NFIP insurance covers only the peril of flooding. Several brokers offer coverages for catastrophe type losses, which include flood as well as earthquake, volcanic eruption, and/or similar types of losses. Often these are seen as Difference in Condition (or DIC) policies. Example programs today offer up to \$1 million in coverage, on residential buildings only, and covered perils include landslide, earthquake, and, of course, flooding.

Lender-Related Coverages

Lender-placed flood insurance programs are available that provide

coverages and services beyond what the NFIP's Mortgage Portfolio Protection Program (MPPP) provides. These include blanket coverages for lenders' portfolios, no waiting period, and guaranty of coverage. Other enhancements include Additional Living Expense and coverages for properties in CBRA areas and non-participating communities.

It used to be that Lloyds was the leader in the private sector flood coverage arena, but in today's soft reinsurance market, other players have emerged. These include American Bankers Insurance, Bankers Insurance, Fidelity & Deposit, Fulcrum Insurance, General Star Indemnity, Safeco, and Travelers. A list of companies that provide coverage outside of the NFIP was distributed at the conference. Copies can be obtained by e-mailing your request to bruce_bender@abig.com. Please note that this listing is not all-inclusive. **W**

Bruce Bender joined American Bankers Insurance Company in 1991, after managing an insurance agency in Miami. From 1991 to 1996, one of Bruce's main responsibilities as Vice President, National Marketing Manager was the marketing and sale of flood insurance.

In 1996, Bruce transferred to the sister subsidiary, American Reliable Insurance Company in Scottsdale, Arizona, and became responsible for the sale and marketing of all products, including flood insurance.

Recently, Bruce was promoted to Senior Vice President, and now is responsible for not only the sale and marketing of the flood insurance, but the training and operations side as well. Bruce has been an active member of the Flood Insurance Servicing Companies Association of America (FISCAA) and the WYO Marketing Committee.

COAST TO COAST

First *Project Impact* Summit Held in Washington, D.C.

More than 600 people from across the United States attended the inaugural *Project Impact* Summit in Washington, D.C., in mid-December. Representatives from more than 60 *Project Impact* communities participated in the 3-day conference designed by FEMA to highlight the successes of this initiative to build disaster-resistant communities.

The Summit centered on three primary topics, "Building Community Partnerships and Assessing Risks," "Preventing Disasters and Communicating Successes," and "Follow Up and Spreading the Word."

An awards banquet was held to recognize and reward communities and individuals that have actively engaged in efforts to save lives and reduce damage from disasters. The "Most Outstanding Model Communities" awards were given to the City of Tulsa, Oklahoma, for work there to end damage from floods and tornadoes, and to the City of Berkeley, California, for its achievements in programs developed to avoid earthquake, wildfire, and mudslide damage.

The "Outstanding National Business People" awards were given to Debbie Pratt (Community Relations Coordinator for Barnes and Noble Bookstore) for her public awareness campaign to reduce storm damage in North Carolina prior to Hurricane Bonnie, and to Lee McConnell (Manager of Lowe's Companies, Inc.) for his educational efforts to provide thousands of hurricane preparedness and damage reduction brochures in North Carolina. Nine other achievement awards recognized outstanding efforts made to protect families, businesses, and communities from the effects of natural disasters.

At a press conference held during the Summit, FEMA Director James Lee Witt announced 60 new *Project*

Impact disaster-resistant communities. The *Project Impact* initiative has grown from 7 pilot communities in 7 states to 117 communities, with an average of 2 communities in every state.

Flood Forum in Puerto Rico

Puerto Ricans celebrated 20 years of participation in the NFIP by attending an interactive flood forum in San Juan on August 20, 1998, exactly one month before Hurricane Georges swept over the island, damaging almost 50,000 homes.

Entitled "Paving the Way for the New Millennium Through New Partnerships for a Better Puerto Rico," the forum drew more than 300 insurance industry representatives and public officials, as well as experts in floodplain management and mitigation.

Lynn Canton, Director of FEMA Region II, opened the forum by describing

Project Impact and FEMA's invitation to the island municipality of Culebra to participate in *Project Impact* as the model community for Puerto Rico. FIA Administrator Jo Ann Howard sent a videotape of her congratulations to WYO companies and others for their 20 years of work in helping the citizens of Puerto Rico prepare for disasters.

Effective partnership was underscored by Don Jones, Senior Vice President of Chapter Operations for the American Red Cross. He urged attendees to develop public and private partnerships for pooling their resources and efforts to make communities safer from flooding disasters. According to Jones, a comprehensive public awareness and education effort is key

to the success of disaster preparedness and mitigation. He suggested that attendees put mitigation issues and solutions directly before the public.

"We must market it by collecting and sharing success stories that prove that mitigation is a good investment that pays significant dividends in the future," Jones said. "I call on you to become part of the Red Cross response and recovery efforts—following every flooding event—to promote and market flood insurance. There is a place for you in our teams, and your



success will impact the amount of assistance that we have to provide to victims of flooding in the future."

After the general session, an interactive panel discussion gave attendees the opportunity to hear from experts about flood issues in Puerto Rico. A final question-and-answer session allowed attendees to ask specific questions about flood protection and to share with other conferees their strategies and solutions to flooding problems.

Reminder About Availability of CBRA Data

To ensure that insurance agents and companies have quick access to

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COAST TO COAST, *Continued from page 7*

the most recent information about communities that have areas protected by the Coastal Barrier Resources Act (CBRA), we have made the database available through the FEMA fax-on-demand system and FEMA's website.

Coastal barriers are unique land forms that provide protection for diverse aquatic habitats and serve as the mainland's first line of defense against the impacts of coastal storms and erosion. CBRA prohibits most new Federal financial assistance, including federally backed flood insurance, within a designated Coastal Barrier Resources System (CBRS).

To access the CBRS database information, call the FEMA fax-on-demand system at 202-646-FEMA (3362) and request document 23029 or go to www.fema.gov/nfip/cobra.htm on the NFIP's webpage, which is housed in the FEMA website.

Save 50 Percent on Your Flood Insurance Advertising Costs

Until September 30, 1999, you can save 50 percent on your flood insurance advertising costs through the NFIP Co-op Advertising Program. Call 1-800-564-8236 for details.

The BATs Were Out Before Halloween!

The Basic Agent Tutorial (or "BAT"), an interactive CD-ROM

designed to train new agents on NFIP policies and procedures through their own computers, was first distributed at the Independent Insurance Agents of America Conference in Boston, Massachusetts, at the end of September.

The BAT was designed specifically for insurance agents unfamiliar with flood insurance. By completing this course, agents will gain the practical knowledge needed to comfortably market, sell, and service flood policies. This means satisfied customers, increased business, and lower errors and omissions exposure.

The tutorial tells the story of flood insurance through an agent/client meeting. A detailed reference text and a copy of the NFIP *Flood Insurance Manual* are included. Users "click" on-screen buttons to move to different sections of the tutorial, take programmed quizzes at the end of each topic sequence, access reference material, and review any section, as desired.

User response has been so favorable that the NFIP is already in the planning stages for an Intermediate Agent Tutorial on CD-ROM that will offer more detailed information on topics such as elevated building rating.

For information about how to get your copy of this new low-cost NFIP

tool, fax your request to (301) 918-1471.

Tech Talk

Accessing information from the NFIP website, digitizing flood maps, and using CD-ROM disks for training agents new to the Program, were the most popular presentations at the November 1998 Bureau Technology Conference.

This year's conference was attended by more than 100 representatives from WYO companies, flood zone determination companies, and other groups that participate in the NFIP. Attendees at the 2-day conference held in Lanham, Maryland, came from as far away as California, Texas, and Puerto Rico.

Each year the NFIP's Bureau and Statistical Agent presents a technical training conference designed to provide WYO companies with detailed information to assist them in processing underwriting and claims data effectively.

The 1998 conference highlighted the cutting edge technology currently being used by the NFIP. In addition to investigating Geographic Information System (GIS) technology, demystifying automated reporting, and addressing error corrections, participants were able to explore the NFIP website live and were walked through portions of the new Basic Agent Tutorial on CD-ROM. **W**

WYO Program, *Continued from page 4*

"The WYO Program is probably the most successful joint venture between a Federal program and the private sector. The collaboration between federal and private insurance industry executives has resulted in a program that provides the NFIP access to the insurance industry property insurance infrastructure for property claims adjustment and policy writing services...an infrastructure that has taken the insurance industry many decades to establish. Without an ability to tap into these insurance services, the Federal Government could not on its own deliver the excellent level of policyholder services and consumer choices that the NFIP offers to its approximately 4 million customers. Also, this collaboration has resulted in excellent financial controls, a record not shared by many Federal programs."

Francis V. Reilly, *FIA Deputy Administrator and Chief Actuary, 1980-1993*

proposals, Customer Service emphasis, Re-competing the Bureau and Statistical Agent contract, Cover America, Operational Reviews of WYO companies, Expense Allowance meeting(s), Strategic Partners Outreach efforts, and more. The FIA staff, working with the Regions, our many partners, and other FEMA Directorates, has its work cut out for it. As Administrator, I am pleased with the enthusiastic responses which all the Divisions of FIA have manifested. It is my privilege to work with these dedicated, experienced professionals." **W**

Important Clarifications Made to *Mandatory Purchase of Flood Insurance Guidelines*

Since the second edition of *Mandatory Purchase of Flood Insurance Guidelines* was published in May 1997, there have been changes in the NFIP that require some corrections and clarifications for today's reader. The Guidelines will be reprinted in 1999, but in the meantime, please note the following changes in your book and keep this article with your compliance materials as a reference.

Flowcharts Updated

On pages viii and ix, at the beginning of the publication, are two flowcharts that track the process of mandatory purchase of flood insurance. The first chart shows how to determine whether the mandatory purchase requirement kicks in at the time of a mortgage loan origination. The other chart shows the trigger points for requiring flood insurance during the life of the loan.

These flowcharts have been revised, and the updated versions were printed in the Spring/Summer 1997 edition of the *Watermark* on pages 6 and 7. The revised charts also can be accessed through the NFIP website at www.fema.gov/nfip/mpurfi.htm. Once at this heading, select the hyperlink "Trigger Points During Life of Loan" to view both charts.

Coverage Availability Clarification

Section B of the Guidelines is devoted to the process by which the NFIP determines the necessity for flood insurance on a specific structure on the basis of its location in a Special Flood Hazard Area (SFHA) and in a community participating in the Program. On page 10, the final sentence of the second paragraph in section B.1.d.(1) has been rewritten to

clarify the requirement for flood insurance for a building not located in an SFHA but with an uninsurable attached structure such as a deck that is in an SFHA: "However, even though that part of the structure within the SFHA is not subject to coverage, e.g., a deck, the entire building is considered to be in the SFHA."

General Mandatory Purchase Provisions Updates

The 1994 National Flood Insurance Reform Act (NFIRA) imposed significant new obligations on lenders and servicers to ensure that buildings at risk for flooding would be financially protected. Section C of the Guidelines describes the entities regulated by the NFIRA (such as Federally regulated lenders, government-sponsored enterprises such as Fannie Mae and Freddie Mac, and Federal agency lenders such as the Small Business Administration) and clarifies many of NFIRA's general mandatory purchase provisions.

In the discussion of limits of available insurance, section C.2.a.(6) on page 25 addresses coverage for buildings under construction. Emphasizing that Elevation Certificates are required not only for new construction, the first sentence of the third paragraph has been revised to read: "For new construction in Regular Program communities, the elevation certificate and the premium will be based upon an elevation figure derived from construction drawings."

Section C.2.a.(7) clarifies the statute's provisions for manufactured (mobile) homes and, on page 26, the first paragraph addresses their definition. Questions have arisen about whether or not a recreational vehicle is considered a manufactured (mobile)

home for purposes of the NFIP. The *Flood Insurance Manual* clearly states that an "RV" is not a manufactured (mobile) home (see page DEF5 in the manual, May 1, 1998 revision).

The Standard Flood Hazard Determination Form is used to record determination results of the location of a structure in an SFHA. Section C.2.e.(2) on page 33 gives instructions for using this form. A correction has been made in the middle of the fourth paragraph that clearly gives lenders the responsibility to substantiate any allegations concerning a building's location in a flood zone. The inadvertently omitted word "not" has been returned to the fourth sentence, which now reads: "A lender or servicer should not simply accept unsubstantiated allegations, from whatever source, about the building's flood zone location."

Voluntary purchase of flood insurance protection is preferable to forcing a property owner to obtain coverage for a building at risk. However, in the event that a property owner chooses not to purchase flood insurance or the lender determines that the property is not adequately insured, NFIRA requires lenders to force place flood insurance on property at risk. The NFIP has created the Mortgage Portfolio Protection Program (MPPP) for lenders who have only a limited amount of underwriting information with which to process involuntarily placed flood insurance. A correction has been made in the description of the MPPP in section C.2.h.(3) on page 38 to clarify that this optional program is designed for lenders, not WYO companies as indicated in the current publication of the Guidelines. For this reason, the first sentence in the second paragraph has been revised to read: "The MPPP is an optional program designed for lenders to force place flood insurance coverage under the NFIP with WYO insurers that have agreed to comply with the requirements of the MPPP."

In the third paragraph of this same section, the first sentence has been

Continued on page 10

ON HIGH GROUND

Automate Your Flood Business

Rita Hollada, CPCU, CIC

Flood insurance often is viewed as difficult to understand and cumbersome to navigate, yet the National Flood Insurance Program (NFIP) has made significant strides in recent years to streamline and automate the information stage and the application process. Agents no longer are limited to the *Flood Insurance Manual* and a toll-free telephone number.

For most agents, the first step when writing flood insurance is to consult a Flood Insurance Rate Map (FIRM). Often, difficulty in identifying the correct FIRM is followed by the frustration of locating the specific property on the map.

Don't despair.

Refer, instead, to a flood zone determination company or to your Write Your Own carrier to do a flood zone determination for you. These companies have sophisticated computer programs that combine the Q3 mapping data from

FEMA with regular street maps. To order a list of determination companies, call the FEMA fax-on-demand system at 202-646-FEMA (3362) and request document 23025.

When you're not sure you're using the correct FIRM, check FEMA's website (www.fema.gov/nfip) and request the *Community Status Book*. It will give you the date of a community's original entry into the flood program (FIRM date), the date of the original map, and the edition date of the current map. Also available through the website is a database that lists all FIRM panels that have Coastal Barrier Zones (so agents can avoid writing a flood policy on an ineligible property).

When you need to order a flood map in paper format, call the Map Service Center at 1-800-358-9616.

Once you've determined the flood zone, the next challenge is to correctly rate the coverage. Information on

automated rating programs is available at FEMA's website or by calling the FEMA fax-on-demand system and requesting document 23014. Many Write Your Own companies also provide free rating software via the Internet that downloads to complete the application.

ACORD has created a flood insurance application that can be stored in your agency's information management system. Any automated application will be accepted by the NFIP as long as the flood underwriting information is complete.

Detailed information about flood insurance, claim procedures, training opportunities, and other topics is available at FEMA's website and through the FEMA fax-on-demand system. Flood insurance isn't that great a mystery after all. **W**

Rita Hollada, CPCU, CIC, is an insurance agent who serves as one of PIA National's representatives to the Flood Insurance Producers' National Committee. She also designs and conducts flood insurance and other education programs for associations, companies, and agencies.

Lender News

rewritten to assure lenders that, although the MPPP offers only a 1-year policy, the policy can be rewritten to provide cover-age beyond one year. This sentence now reads: "The MPPP is an annual policy and, although it cannot be renewed, it can be rewritten each year if the required procedures are followed."

Appendix 5 Resources Updated

Section E of the Guidelines outlines NFIRA's key provisions followed by a series of appendices that provide many additional resources for lenders. Appendix 5 lists two pages of telephone numbers and addresses useful for gaining more information about the NFIP. Information in this appendix has changed since the 1997 printing of *Mandatory Purchase of Flood Insurance Guidelines*. However, the

tear-off sheet on the back cover of this *Watermark* contains all current telephone numbers and addresses for the Program. You may want to make a copy to keep in your guidelines booklet, replacing it with the updates issued in each new edition of *Watermark*.

Additional Information Available

The NFIP produces many public awareness materials that explain the Program to lenders and consumers. These materials include:

- *Answers to Questions About the NFIP*
- *How You Can Benefit from the New ICC Endorsement*
- *Myths and Facts*
- *Nothing Could Dampen the Joy of Home Ownership*
- *Resources for Lenders, Servicers and Examiners*

- *Top 10 Facts Every Lender Needs to Know About the NFIP*
- *What You Need to Know About Federal Disaster Assistance and Federal Flood Insurance*

In addition, the NFIP website at www.fema.gov/nfip/info.htm has a wide array of information important to lenders, including a section on the National Flood Insurance Reform Act of 1994, listings of workshops designed to give lenders training about NFIP issues, a section with information on the maps used to determine flood insurance eligibility and how to read them, a listing of flood zone determination companies, a section on flood insurance premiums, and a section that provides information about policy processing and payment options.

Information for lenders about the NFIP also is available from the FEMA fax-on-demand system at 202-646-FEMA (3362). **W**

Now That's A Good Question!

Sometimes writing flood insurance policies can be confusing—ask any agent new to the NFIP! But even seasoned experts appreciate the policy clarifications and other forms of Program guidance provided every year to explain and streamline NFIP procedures.

Here are some recent questions that were submitted for clarification.

Question: How can I determine what flood zone a building is in?

Answer: FEMA's Flood Insurance Rate Maps (FIRMs) contain all of the flood zone information you need. FIRMs show the boundary lines that define floodplains. Each NFIP community has a number that is used to identify the current FIRM(s). If your community is large enough to span more than one FIRM panel, use the community number to select the appropriate flood map index for your area. The map index shows a less detailed map of the community with the individual map panels clearly marked and numbered. Use the map panel number to select the appropriate map panel for precisely identifying the location of the structure. You can contact FEMA's Map Service Center (800-358-9616) between 8:00 a.m. and 5:00 p.m. EST, Monday through Friday, to order the index and panel(s) you need.

The next step is to pinpoint your particular property on the map panel. You'll notice boundary lines that divide white or shaded areas. White or light gray shaded areas define B, C, or X zones; dark gray areas define Special Flood Hazard Areas (SFHAs) with designations that begin with an A or a V.

Information about how to rate properties located within different zones can be found in the NFIP *Flood*

Insurance Manual, available in its entirety at the NFIP website (www.fema.gov/nfip) or through the Map Service Center.

Question: Who can purchase a Preferred Risk Policy?

Answer: The Preferred Risk Policy (PRP) is a great tool for marketing lower-cost flood insurance policies to homeowners located in those flood zones with a low statistical chance of flooding, called B, C, or X zones, within participating NFIP communities. This reduced-cost policy may be the best option for many owners of 1- to 4-family homes located in B, C, or X zones. However, if the building being insured has experienced more than one flood loss, you need to refer to the Preferred Risk section of the *Flood Insurance Manual* to review the specific loss conditions that disqualify a building from PRP eligibility.

Question: Where can I find a Community Status Book?

Answer: The Community Status Book is a document that lists the communities participating in the NFIP, the community number (found on FIRMs and used on the Flood Insurance Application Form as well as on Elevation Certificates), the county in which the community is located, the date the community entered the Program, and the date the most current FIRM was issued. This information is readily available through the NFIP home page (located at www.fema.gov/nfip) by selecting "Community Status Book" in the "Quick Links" box or by going directly to the Community Status page through www.fema.gov/fema/csb.htm. Those who do not have access to the Internet can order Community Status books for

individual states through the Map Service Center at 800-358-9616 between 8:00 a.m. and 5:00 p.m. EST, Monday through Friday.

Question: What is the difference between a 100-year flood and a base flood?

Answer: They are the same thing! Historically, the NFIP used the term "100-year floodplain" to describe Special Flood Hazard Areas (SFHAs). However, because many people who lived in SFHAs came to believe that this designation meant that a flood was unlikely to occur in their area more frequently than once every 100 years, it has been replaced by the newer designation of "base flood." In fact, there is a 1 percent or greater chance of a base flood occurring in an SFHA in any given year. Base Flood Elevation (BFE) requirements are listed on FIRMs and are used on Elevation Certificates to indicate the expected depth of water should a flood occur. New buildings constructed in SFHAs are required to have their lowest floors at or above the BFE listed for that location on the current FIRM. **W**

Do you have questions about the NFIP you'd like to have answered? Send questions to us through our website at www.fema.gov/nfip/ask.htm; send us a fax at 301-918-1471; or send a letter to:

**Watermark Questions and Answers
NFIP
7700 Hubble Drive
Lanham, MD 20706**

CONFLUENCE

Climbing to New Heights: 1999 National Flood Conference Slated for May

The 16th annual National Flood Conference will be held May 16-19 in Denver, Colorado at the Denver Marriott Tech Center, located just 15 minutes from downtown and 35 minutes from Denver International Airport.

Each year, the National Flood Conference brings together new and experienced insurance agents, insurance company staff, lending institution compliance officers and loan officers, real estate agents, appraisers, surveyors, flood determination companies, claims adjusters, and state and local officials to discuss current issues in flood protection.

This year, conference participants will ascend new heights in the field of flood insurance by focusing on the leadership roles each NFIP partner plays in the Program. More than 30 seminars, roundtables, and workshops have been scheduled to help all NFIP stakeholders identify the cutting edges of the Program where they have the most questions and can have the greatest impact in the future.

FIA Administrator Jo Ann Howard will open the first general session by talking about the most recent changes in public policy and the insurance industry that impact the availability and coverage offered by National Flood Insurance. Numerous other keynote speakers have been invited to share their insights about flood-related issues at two of the general sessions. The final general session will be devoted to a "Hot Issues" panel, a workshop that has been so popular at past conferences that it has been turned into a general session to allow more people to attend. Special attention has been given to provide community officials with more opportunities to discuss aspects of the

Program that affect them the most. In addition to workshops about FEMA's new map modernization project, the successful community-based *Project Impact* program, LOMA/LOMR issues, and CBRA issues, a new workshop, "Community Compliance," will be offered to draw together all of the multiple issues that face officials as they implement the NFIP in their communities.



This year's "Meet the Pros" workshop has been designed to give participants the opportunity to meet informally at one of 8 roundtables of not more than 10 people each. Every roundtable will be hosted by a flood insurance expert from the NFIP, FIA, or a WYO Company. Attendees will be able to get answers to specific questions and discuss common concerns while meeting one-on-one with experts in audit/cash management, training, marketing, and mapping, as well as in lender, underwriting, claims, and TRRP Plan issues.

A special Agent Day, to be held on Tuesday, May 18, will begin with a 5K/1 Mile Fun Walk for interested participants, followed by a buffet breakfast and a general session featuring a number of keynote speakers. After the morning break, agents may choose from among 7 workshops to attend before the lunch break. A continuing education seminar

is scheduled from 1:00 to 5:00 p.m. that afternoon, and attendees will receive 4 Continuing Education Units. Agents may attend the entire conference for the full fee or may choose to register for just this day at the reduced rate of \$40.

A highlight of the conference each year is the Program Awards Dinner at which FIA honors those who have made extraordinary contributions to the Program and announces the winners of the NFIP's public awareness materials competition. The awards dinner will be held on Tuesday evening, May 18.

All NFIP stakeholders will find subject material at the 1999 National Flood Conference that is tailored to maximizing their ability to serve their constituents more effectively. In fact, even Exhibit Hall operations have been structured to enable exhibitors to attend all of the workshops and general sessions without missing the opportunity to meet with conference attendees during a special block of time dedicated to exhibiting.

A pre-conference golf tournament will kick off the activities for early arrivals, and 2 days later the 5K/1 Mile Fun Walk will give attendees the chance to stretch their legs and raise funds for victims of flood disasters. In addition, the Denver Marriott Tech Center offers a health club, racquetball courts, and a 4-star Italian restaurant. With views of the snowcapped Rocky Mountain peaks and with nearby facilities for golf, tennis, and jogging, the setting for this year's National Flood Conference will provide participants with numerous recreational opportunities in addition to the general meeting sessions, topic workshops, and informal roundtable discussions.

If you have not attended an NFIP National Flood Conference and would like to be added to the mailing list of those being sent conference announcements, please send your request to Becky Reardon by e-mail at becky.reardon@fema.gov, or you may send a fax to her at 301-918-1471. **W**

Flooded Again! FEMA Strategies to Reduce Repetitive Losses

The flood-repair-flood-repair cycle is all too familiar to thousands of property owners whose buildings are located in floodplains. Moving out of harm's way has been a viable option for many, but a significant percentage of NFIP claims continue to be paid on insured properties that experience repeated losses.

For the purposes of identifying properties facing significant risk of flooding, the NFIP defines a repetitive loss property as one that has had two or more losses of greater than \$1,000 each within any 10-year period. Approximately 76,000 properties insured by the NFIP in the United States have experienced repetitive losses since 1978. Of these, fewer than half have been identified as being currently insured by the NFIP. Although repetitive losses make up only a small percentage of all NFIP policies, they have represented 37.8

percent of claims paid since 1978. And, even though numerous mitigation efforts have been undertaken, repetitive loss properties are expected to continue to account for, on average, an estimated \$200 million in NFIP losses each year.

FEMA convened a task force in February 1998 to examine the issue of repetitive losses and to recommend strategies for reducing the NFIP's exposure and for mitigating flood damage to these properties. The task force has analyzed repetitive loss data from 1978 through 1997, and several trends have emerged.

Identifying the Risk

The NFIP was established in 1968 as a risk assessment, floodplain management, and insurance program. Insurance is made available in communities that enact NFIP-mandated ordinances to control development and

to ensure that new construction meets Program standards for flood risk protection.

A community is informed about its flood risks through a Flood Insurance Rate Map (FIRM), which delineates risk zones and shows the elevations projected for a base flood in that location. A base flood is one with a depth that has a 1 percent chance of being equaled or exceeded in any given year. Insurance agents use FIRMs to determine the risk classification for National Flood Insurance for a particular property and to determine the rate charged for flood insurance.

A building constructed after FEMA issued a FIRM is considered "Post-FIRM construction" and is charged the full-risk premium for flood insurance. However, many floodprone buildings were constructed before the NFIP existed and before adequate flood hazard mitigation information on safer construction techniques that raise buildings above the Base Flood Elevation (BFE) were readily available. Not surprisingly, most repetitive loss properties are Pre-FIRM buildings; only 4 percent of repetitive losses are of Post-FIRM construction.

Geographic Distribution of Repetitive Losses

Historically, most repetitive losses have resulted from riverine or stormwater flooding on flat, poorly drained, coastal plains. For example, a significant number of losses has occurred in the New Orleans area, where residents rely on massive pumps to remove stormwater from behind levees. But in recent years, hurricanes and Nor'easters sweeping through the Mid-Atlantic states and New England, Hurricane Opal ravaging Florida and hurricanes Fran and Bertha making landfall in North Carolina have resulted in increased repetitive losses caused by coastal storm surge.

Most repetitive loss buildings are located in 10 states, with more than a

**Top 20 Repetitive Loss Communities
Ranked by Number of Structures**

Community	No. of Buildings	(Insured)	Losses Paid (millions)
1 Jefferson Parish, LA	5,046	(3,071)	\$179.4
2 New Orleans/Orleans Parish, LA	3,526	(1,987)	\$125.6
3 New York, NY	2,240	(294)	\$ 27.7
4 Houston, TX	1,837	(753)	\$103.7
5 Harris County, TX	1,579	(543)	\$ 94.4
6 Puerto Rico	1,464	(269)	\$ 30.9
7 St. Charles County, MO	1,396	(227)	\$ 59.1
8 Sonoma County, CA	749	(518)	\$ 42.8
9 St. Bernard Parish, LA	694	(409)	\$ 21.1
10 East Baton Rouge Parish, LA	654	(385)	\$ 31.0
11 Galveston County, TX	594	(140)	\$ 18.6
12 Montgomery County, TX	539	(129)	\$ 31.4
13 Terrebonne Parish, LA	521	(243)	\$ 18.4
14 Scituate, MA	458	(365)	\$ 28.4
15 St. Charles Parish, LA	455	(384)	\$ 32.4
16 Brazoria County, TX	452	(128)	\$ 15.1
17 Gretna, LA	450	(204)	\$ 12.9
18 Ocean City, NJ	430	(297)	\$ 11.2
19 Hempstead, NY	425	(277)	\$ 11.9
20 St. Tammany Parish, LA	392	(170)	\$ 16.0
Total	23,390		\$ 921

Excerpted from the NFIP Working Paper on Repetitive Loss Buildings (April 1998)

Continued on page 14

Repetitive Loss Strategies

Continued from page 13

third in Louisiana (which has 16,989 repetitive loss buildings, or 22.2 percent of the national total), and Texas (which has 10,588 repetitive loss buildings, or 13.9 percent of the national total). An additional 30,440 repetitive loss buildings are located in California, Florida, Illinois, Massachusetts, Mississippi, Missouri, New Jersey, and New York.

Not only are most repetitive loss buildings concentrated in a few states, but a substantial percentage (18.5 percent) is located in just five communities: in the state of Louisiana, the communities of Jefferson Parish and New Orleans/Orleans Parish; in the state of New York, New York City; and, in Texas, the City of Houston and Harris County. The top 20 repetitive loss communities account for 30 percent of all repetitive loss buildings and 32 percent of all dollars paid in

Trends in Repetitive Loss Payments

Some buildings sustain frequent, serious flood damage to their structures and/or contents and require large claims payments, while others experience only “nuisance flooding” to basements or enclosures and cost relatively little to repair. Low-cost retrofitting techniques, such as removing furnaces and water heaters from basements or using barriers to keep shallow floodwaters out of buildings, could help to reduce some of these nuisance damages. Seventy-five percent of repetitive loss payments are for less than \$20,000, and more than one-third of all repetitive losses are for damages totaling less than \$5,000. However, in some instances, buildings have had claims that equaled or exceeded the building’s value. Since 1978, more than 3,500 losses have occurred that totaled 81 percent or more of a building’s value.

FEMA has developed a series of manuals and courses to provide information for design professionals and homeowners on retrofitting. *Engineering Principles and Practices for Retrofitting Floodprone Residential Buildings*, a publication intended for architects and engineers designing retrofitting measures which includes cost-benefit software, was published in 1995. An accompanying course for design professionals is given at FEMA’s Emergency Management Institute, and a short course also is available for field delivery at disaster sites. In 1998, FEMA published and distributed the *Homeowners Guide to Retrofitting*. This publication provides homeowners, community officials, and others with basic information on alternatives for retrofitting floodprone buildings.

• Implementing Changes to Insurance Coverage and Costs to Reduce Exposure

Periodically, flood insurance availability, limitations, and costs have been amended to reflect Program costs.

In 1983, FEMA introduced limitations to coverage for finished materials and contents in basements and in enclosures below elevated buildings. This change produced significant Program savings since basements historically had accounted for a high percentage of repetitive losses. Another result of the change was that some owners of repetitive loss buildings, believing that the basement was the only part of their property susceptible to flood damage, chose not to renew their flood insurance policies.

The National Flood Insurance Reform Act of 1994 authorized the NFIP to provide Increased Cost of Compliance (ICC) insurance coverage for substantially damaged and repetitively damaged buildings. ICC coverage provides up to \$15,000 toward the cost of complying with community floodplain management ordinances. Over time, many repetitive loss buildings will be moved, substantially improved or retrofitted, or elevated to meet ICC requirements as

Distribution of Repetitive Loss Buildings by Zone

The distribution of repetitive loss properties by zone is as follows:

Zone	No. of Buildings	No. of Losses	Dollar Losses	Average Loss
All A Zones	49,131	136,567	\$ 1.9 billion	\$14,059
All V Zones	2,703	6,756	\$126 million	\$18,713
B, C, and X Zones	15,991	44,456	\$605 million	\$13,602
Emergency	7,482	17,717	\$126 million	\$ 7,117
Other	977	2,678	\$ 35 million	\$13,083

Excerpted from the NFIP Working Paper on Repetitive Loss Buildings (April 1998)

claims. Not surprisingly, 8 of these communities are in Louisiana and 5 are in Texas.

The distribution of repetitive loss buildings by zones reveals that 72.4 percent of those for which zones have been identified are located in A zones (see chart above). Historically, the number of repetitive losses in V zones has been low—only 4 percent since 1978—although losses have increased recently because of the severe storms that have hit New England and the Mid-Atlantic states since 1990.

Current Approaches to Reducing Repetitive Losses

A number of initiatives have been undertaken since the early 1980s to address repetitive losses. Together, these initiatives have been successful in reducing the number of repetitive loss buildings and the associated costs of repairs.

• Improving Policy Guidance Through FEMA Publications and Training Courses

they eventually suffer substantial damage caused by floods.

In May 1998, the deductible for coverage on Pre-FIRM subsidized policies was raised from \$750 to \$1,000. It is hoped that the increased deductible will provide another incentive for owners of repetitive loss buildings to take action to protect their buildings.

- **Establishing Programs to Fund Mitigation Measures**

Numerous mitigation actions to reduce flood damage have been funded by federal, state, and local governments and by private individuals.

The National Flood Insurance Reform Act of 1994 authorized FEMA to establish a Flood Mitigation Assistance Program to reduce losses both to repetitive loss properties and to substantially damaged properties. It is expected that this form of assistance will reduce the pool of repetitive loss buildings much as did an earlier program, the Section 1362 Flood Damaged Property Acquisition Program. Through the Section 1362 Flood Damaged Property Acquisition Program, more than 1,000 buildings were acquired, many of which had sustained repetitive losses.

Since 1993, approximately 20,000 buildings have been acquired, relocated, or elevated through financing provided by the Hazard Mitigation Grant Program and others through supplemental Congressional emergency appropriations to the Community Development Block Grant Program. For example, after the Midwest flood of 1993, approximately 5,100 structures were acquired, relocated, or elevated in the 30 top Midwest repetitive loss communities.

- **Applying Loss Reduction Incentives Through the Community Rating System**

As a condition of participation in the Community Rating System (CRS), communities that have 10 or more repetitive loss buildings are required to

develop a plan for reducing the number of these structures. CRS communities are required to conduct reviews of their repetitive loss buildings and to submit to the NFIP any address corrections or other updated information indicating when a property is no longer subject to repetitive flooding. CRS credits are provided for acquisition, relocation, elevation, and other retrofitting.

Investing in mitigation while offering subsidies for participation in the Program has paid off. Building standards required for all Post-FIRM construction are producing an estimated reduction of \$770 million in damage caused by flooding each year.

- **Constructing Flood Control or Stormwater Management Projects**

The U.S. Army Corps of Engineers, regional flood control districts, and local communities have provided significant protection for repetitive loss buildings through numerous flood control and stormwater management projects built across the nation.

Shrinking the Loss Pool

Measures such as these have helped reduce the number of repetitive loss properties insured by the NFIP. Some buildings leave the repetitive loss category when their owners use mitigation measures such as elevating or moving their buildings out of high flood risk zones. Some repetitive loss buildings have been demolished and either replaced by new buildings that are properly elevated or not rebuilt at all. And some owners of repetitive loss properties have simply dropped National Flood Insurance coverage for economic or coverage limitation reasons.

As repetitive loss structures are upgraded, removed, or replaced by buildings built to withstand flood events, officials at FIA are optimistic that the subsidy of below-standard buildings will be reduced. However, this is not happening quickly enough.

The NFIP needs a repetitive loss strategy that will mitigate losses in the short term if it is to achieve its objective of becoming fiscally sound.

In the meantime, FEMA's task force has developed recommendations for additional strategies to accelerate this reduction in repetitive loss buildings. These strategies fall into four categories:

- modifying insurance coverage or premium charges to provide incentives for property owner action
- directing mitigation funding to areas with the worst repetitive loss properties
- increasing incentives for communities to mitigate losses before they occur
- providing additional information to state and local governments regarding repetitive loss properties in their jurisdictions, and boosting efforts to collect, compile, and evaluate data on repetitive loss property risks while chronicling both historical and projected strategies to reduce them

As FEMA continues to seek ways to apply more funding, a work group is in the process of refining FEMA's proposed strategies to address repetitive losses. In addition, public/private partnerships such as FEMA's **Project Impact** offer promise in helping affected property owners and the communities they live in to break out of the flood-repair-flood-repair cycle.

Although current levels of activity are gradually reducing the problem of repetitive losses, this process will be accelerated as additional funding is focused on mitigation and education and as repetitive loss strategies continue to be refined.

In the meantime, the NFIP stands ready to help Americans rebuild their lives, however often flood disasters occur. **W**

BENCHMARKS

New AR Zones in California Create a Sales Season to Remember

Gregory Gath, Don Gath Insurance Agency

Just as Mark McGwire and Sammy Sosa will remember 1998 as the sensational year in which both surpassed Roger Maris's decades-old mark by hitting record numbers of home runs, opportunistic insurance agents in California will recall 1998 as the year in which they tapped a new market and wrote record numbers of flood insurance policies.

Two separate once-in-a-decade opportunities arose last year to create an ideal selling climate for insurance agents versed in the regulations of the National Flood Insurance Program. Early in the year, the ominous El Niño weather system motivated many California consumers to purchase flood coverage. Then, halfway through the year, FEMA redesignated 177,000 properties in our area of Southern California from low-risk zones to the temporary Special Flood Hazard Area (SFHA) AR zones. These two rare events produced the optimum conditions for agents to write flood insurance at record levels.

Our small, family-owned agency first noticed the opportunity to protect our property clients with flood insurance when the weather reports began tracking the El Niño condition brewing in 1997. Some weather forecasters predicted that El Niño would drown California with the worst rains in our state's 150 years of recorded weather history. In response to these reports, our agency began offering our clients flood insurance in the fall of 1997. We simply informed them that coverage was available—and then we relied on the threatening weather predictions and clients' fear of Nature to do the rest. Although the majority of our property clients live outside of SFHAs and have never experienced flooding, more than one-

eighth of them ended up purchasing flood insurance for the El Niño season.

The fear of Nature proved to be a tremendous stimulus to inspire clients to purchase flood insurance. That stimulus, however, turned out to be a great deal less motivating than our clients' fears of the government.

The furor for flood insurance created by the long-rumored and finally realized reclassifying of an 82-square-mile portion of Southern California into a mandatory flood insurance zone made our vigorous El Niño sales seem a commonplace feat, like hitting a mere—yawn—50 home runs in a season. Only when the re-zoning of much of the land along the Los Angeles River to an SFHA was imminent did the majority of property owners begin to get serious about flood insurance. New clients, compelled by the new FEMA flood insurance requirements, streamed to insurance agents who, like us, were prepared to write record numbers of flood insurance policies.

Our agency attributes its success in attracting throngs of new clients and efficiently providing coverage for them to two factors—first, our responsiveness to the suggestions, leads, and rules of the NFIP and second, the ease with which we did business with our WYO company of choice, Bankers Insurance Group. Most of our new clients came to us through the NFIP Leads Program. These new customers first turned directly to the NFIP to have their questions about flood insurance answered. The NFIP then referred these leads to local agents like us. The people who had turned to the NFIP to get answers about flood insurance were those who did not already have a trusted agent to whom they could go

with their questions. This was our agency's opportunity to demonstrate to these "agent-less consumers" the value of working with knowledgeable insurance professionals.

These agent-less consumers who turned to the NFIP were in need. Many of them had first sought help from their current direct insurance carriers only to find that these direct writers did not offer flood insurance. Still others looked to their current agents only to be given ambiguous answers and to be quoted ridiculous prices. By the time these people called the NFIP and were referred to us, they were accustomed to being given the run-around. These buyers were motivated, but most were not happy about being forced by the government to purchase a product that they viewed as useless.

Our feat was to turn these unwilling buyers into educated consumers. We had copies of our local communities' Flood Insurance Rate Maps (FIRMs), and first we located individual properties on the map to determine if their zone would be reclassified as an AR zone. We then showed property owners newspaper articles that explained the need for flood insurance and spelled out the requirements of the government and their lenders. We showed them how they could save money during the first year of the zone change by purchasing Preferred Risk Policies before the changes took effect in July 1998. We then rapidly calculated premiums with the flood rating software provided by our WYO carrier. From there, applications were simple to complete and a breeze to transmit via modem to our carrier. We were left with many new satisfied clients who, empowered by their understanding, were glad to be relieved of their flood insurance worries and happy to discover the undeniable value of reliable agents.

The wonderful people at the NFIP's Telephone Response Center sent us new buyers in droves. On more than one occasion, fearing they were overworking our agency, the response team apologized to us for sending us so much business. No apologies were

Modernizing FEMA's Flood Hazard Mapping Program

Anne Flowers, FEMA Mitigation Directorate

Identifying and mapping the nation's flood hazards has been an essential part of the Federal government's efforts to protect residents of floodplains from flooding disasters. In fact, the National Flood Insurance Act of 1968 mandated that this mapping program be undertaken in support of the NFIP. The National Flood Insurance Reform Act of 1994 requires the flood hazard map for each community to be re-evaluated at least once every 5 years. Current, accurate flood maps are critical to reducing potential loss of life and property in floodplains, and minimizing NFIP and disaster assistance costs.

The approximately 100,000 map panels produced through FEMA's Flood Hazard Mapping Program are valuable resources to insurance agents and companies, lenders, property owners, flood zone determination firms, and real estate professionals. They are also used by floodplain managers, community planners, surveyors, engineers, and disaster and emergency response officials for mitigation, risk assessment, and disaster preparedness, response, and recovery activities.

Creating and maintaining maps is an ongoing process for the Technical Services Division of FEMA's Mitigation Directorate. Once flood

hazards are identified and mapped, those maps need to be updated periodically to incorporate changes caused by development (which creates new streets and alters road networks) and natural factors (such as floods) that can change the terrain. As urbanization occurs, buildings, parking lots, and roads cover the soil, limiting the amount of infiltration that can take place during and after a storm. Under these conditions, runoff can overflow channels, streams, and rivers that previously carried water safely downstream.

Unfortunately, the maps are aging. Approximately 45 percent of the maps are at least 10 years old, and 75 percent are 5 years or older. The effect of aging is that many of the maps are inaccurate because they reflect engineering analyses that are out of date. In response, FEMA has developed a Flood Map Modernization Plan that uses emerging technologies for cost-effective mapping and modeling. Flood information will be updated and maintained by converting maps to digital formats that not only can be used in automated applications, but also are better adapted to modern printing and distribution.

The Map Modernization Plan emphasizes community involvement by transferring data and technology to

the local level through community/Federal partnerships. Increased state/community/private involvement in the mapping process will complement FEMA's *Project Impact* initiative. In addition, it is expected that community involvement in the mapping process will result in better floodplain management on the local level and less reliance on Federal disaster assistance after a flood.

In support of state and community flood mapping efforts, FEMA will provide funding, training, and technical assistance to participating Cooperating Technical Communities. At present, 95 percent of the funding for FEMA's Flood Hazard Mapping Program comes from the \$30 Federal Policy Fee charged for each flood insurance policy. Although funding of this program for Fiscal Year 1997 was approximately \$46 million, the demand from the broadened user base for map products has significantly outgrown available funding.

Completing the Map Modernization Plan is not possible at present funding levels. An estimated \$882 million beyond the present funding level will be needed over a 7-year fiscal cycle to pay for the Plan. Although the costs associated with it are high, a benefit/cost analysis clearly shows that the Plan will result in more than \$2 in reduced flood losses for every \$1 invested in updated, digital flood maps. **W**

New AR Zones

necessary, for we were well equipped to handle the onslaught of business that peaked during the first week of July.

But what if our agency had not kept abreast of the changes in the flood insurance market and consumers' needs for flood insurance? What if our agency quoted higher-priced standard risk policies when we could have been quoting preferred risk packages? What if we did not participate in the NFIP leads program? What if we did not keep local FIRMs in our office for customers to examine? What if we could not effectively answer customers' questions and inspire confidence in the NFIP? If we had not been prepared, there would have been many property owners disgruntled with their government, and our agency would not have had a record-breaking season. **W**

Gregory Gath is an independent insurance agent with the Don Gath Insurance Agency in Long Beach, California. This agency writes National Flood Insurance policies through the Bankers Insurance Group.

Anne Flowers is a "lifer" with the National Flood Insurance Program, having come on board in August 1976. She has worked extensively with the flood mapping program, including leading the Letter of Map Amendment (LOMA) team for 2 years. She is presently serving as a Program Specialist in the Mitigation Directorate's Technical Services Division, with responsibilities for outreach activities relating to the Map Modernization Program.

If I Were an Agent

Bob Butler, Selective Insurance Company of America

Marketing and selling flood insurance is simple once you get down the basics. Flood insurance should be included with every property product offering made, if the building and/or contents to be insured are eligible for coverage under the NFIP.

The difficulty most of us encounter when marketing or selling this often misunderstood product arises when we are not fully knowledgeable about what the policy covers, the unique terms used in this Program, and how to properly classify and rate a risk. Once you've mastered these three basic stumbling blocks, arm yourself with some flooding facts and statistics. Then, you're ready to kick off a flood marketing plan of your own.

Now if I were an agent—and I've often thought of becoming one—I'd have a marketing plan for flood insurance that would look something like this:

1. Inform your staff of your intention to seriously pursue marketing and selling flood insurance and then send them to a flood seminar for which they will receive continuing education credits. (They will all reluctantly go.) Next, inform them that you will be running a sales contest in which they will be eligible to either share in the commissions generated or to win a prize. (Now you've got their attention.)
2. Once they are educated, give your staff the tools they need to get the job done. Your list of tools should include:
 - **Easy access to flood zone information**, whether you maintain flood maps in your office or use the services of a flood zone determination company. (Yes, there's a whole industry dedicated to providing flood zone

information.) Easy access to flood zone information is critical.

- **Flood rating software, flood rating software, flood rating software.** (Did I make my point?) Flood rating software takes the guesswork out of rating this coverage. Many flood rating packages even produce an application form that your WYO company or the NFIP Direct will be glad to accept. Using rating software also will help to eliminate going back to an insured for an additional premium when one of those embarrassing underpayments occurs.
3. Time to get down to business. Where should you start? With your own customers, of course! After all, you're their professional agent; they'll be open to your advice. Here's some homework you'll want to do in advance:
 - **Know your customers' flood risk.** By knowing your customers' flood risk before you make contact with them, you show you've done your

Reasons Why People Don't Purchase Flood Insurance...

I'm not in a flood zone!

This is a common response, but the fact is that, when the community belongs to the National Flood Insurance Program (NFIP), the entire community has been mapped and assigned flood zones, from the highest mountain to the lowest valley. The zones indicate either high, moderate, or minimal flood risk. What most people mean by this is that they are not in a high-risk flood zone.

I'm not in a high-risk flood zone!

Great! However, NFIP history has shown that nearly 25% of all losses paid have been for buildings outside the high-risk flood zones. But the good news is that homeowners in these moderate and low-risk flood zones are eligible for discounted flood insurance under the Preferred Risk Policy. This policy provides building and contents coverage for as little as \$106 a year.

My home isn't going to be flooded—we've never been flooded before!

Floods are the most common form of natural disaster. In fact, 80% of all Presidentially declared disasters involve flooding. Homes located in a high-risk flood zone have a 26 percent chance of being flooded during the life of a 30-year mortgage compared with only a 4 percent chance of having a fire, yet almost nobody hesitates to get fire insurance.

It's too expensive!

For people who don't carry flood insurance, their only assistance will come in the form of a loan. The average duration of a Small Business Administration (SBA) disaster home loan is 20 years and the monthly repayment amount for a \$50,000 loan is \$320. Depending on where you live, you can buy a flood policy with \$50,000 in coverage for about \$171 a year.

homework. You'll be ready to explain the type of flooding exposure they face and the options available to them, like the low-cost Preferred Risk Policy. (If you're not familiar with this policy, run, don't walk, to the nearest NFIP Agent Seminar.) You can even have one of those flood zone determination vendors scan your entire book of business for the applicable flood hazard areas. Most of them will do it at a minimal cost per address.

- **Offer each eligible customer a quotation.** Now that you're comfortable with the product, it will take only a minute or so to do the quote with your rating software. If you come across a family whose building requires an Elevation Certificate, that means it's even more important for them to have flood coverage because their building is built post-FIRM and located in a Special Flood Hazard Area. Don't let this be a stumbling block. Contact the local community officials to see if they have

maintained a copy in their building records. Or make a deal with a local surveyor or engineer to discount the cost in exchange for sending them all of your insureds who need Elevation Certificates. (Again, if you don't know what an Elevation Certificate or post-FIRM is, run, don't walk, to your nearest NFIP Agent Seminar.)

- **Be ready for objections to buying,** and have ready the facts and statistics to back yourself up so you can close the sale. (For a starter, see the list of objections and fact-based responses that accompanies this article.)

By this time, you've either sold a new policy or, at the very least, educated your customers about the flood risk and the options available to them. And I hope that, if you haven't sold them a policy, you've gotten them to sign off that they've been offered this valuable protection and declined it. Someday, both you and your E & O carrier may be glad you did.

Your flood marketing doesn't stop here either. There are many opportunities to

market and sell flood insurance all across the country. Here are a few to keep you going.

- Join the NFIP Leads Referral Program.
- Participate in the NFIP's Cover America Co-op Advertising Program. It will pay 50% of your flood advertising costs if you have the ad approved prior to printing.
- Watch the FEMA website for newly participating communities in the NFIP. Residents of these communities who were not previously able to purchase coverage suddenly become prospects.
- Know the flood hazard areas in your local community and its flooding history. Use this information to become known as the local flood insurance expert. **W**

Bob Butler is Manager and Principal Coordinator of Flood Operations at Selective Insurance Company of America, an Independent Agency Company. He has been involved with the National Flood Insurance Program since 1986.

And the Facts to Overcome Them

Disaster assistance will be available if my home or business is flooded. I don't need flood insurance!

Before a community is eligible for disaster assistance, it must be declared a Federal disaster area. Federal disaster declarations are awarded in less than 50% of flooding incidents, and most forms of assistance are loans that must be paid back with interest.

Flood insurance is available only for homeowners!

Flood insurance is available to protect homes, condominiums, apartments, and non-residential buildings, including commercial structures.

You can't buy flood insurance if you are located in a high-risk flood area or if your property has been flooded in the past!

You can buy Federal flood insurance no matter where you live if your community participates in the NFIP, except in Coastal Barrier Resources System (CBRS) areas and properties listed as disqualified under Title 1316, even if your building has been flooded repeatedly.

My property policy covers flooding!

Unfortunately, many property owners do not find out until it is too late that property policies don't cover flooding.

My basement is the only thing that will flood, and flood insurance won't cover that!

NFIP policies cover many basement elements, including cleanup expense and items such as furnaces, water heaters, washers and dryers, air conditioners, freezers, foundation elements, utility connections, and pumps. The flood policy does not cover contents stored in basements or a finished basement's contents or improvements such as finished walls, floors, and ceilings.

Hydrology 101: The Bathtub Theory of Flooding

Water may be an essential part of our planet's biosphere, but it is possible to have too much of a good thing. Too much water in one place, at one time, has spelled disaster for millions of people throughout history who found themselves or their property far from high ground.

Hydrologists define two primary types of flooding. "Flash flooding is a quick event," says Richards. "Typically, there is a deluge: the sky opens up and it rains cats and dogs. The surface of the earth simply can't deal with the water coming down that fast. Usually the earth acts like a sponge and absorbs



Frank Richards, Chief of the National Weather Service's Hydrologic Information Center, part of the National Oceanographic and Atmospheric Administration, has studied water and its effects for more than 20 years. According to Richards, when it comes to flooding, the problem is that people just don't understand the power of water.

"Think of hydrology as a bathtub with a faucet and a drain," he explains. "The faucet is very much like the input of water from rain and snowmelt into a hydrologic system. And just like the bathtub, you've got an outflow of river systems draining into the ocean. In most cases, the bathtub's drain is open." But, just as bathtubs overflow when water flows in faster than it can drain, floods occur when the hydrological system cannot absorb rainwater or melting snow faster than it is delivered.

water if it comes down slowly. If you had a pitcher of water dripping on a sponge, the sponge could absorb most of it. But if you dump the pitcher upside down, the sponge can absorb only a fraction of the water. When rain comes down heavily, you can have flooding in almost any low spot. You don't have to be near a river to have flood deaths or flood damages. Flash flooding comes on so quick that people are unprepared."

The other end of the spectrum is river flooding. "Large rivers like the Mississippi, Missouri, Colorado, and Ohio carry so much water that a small flash flood is unlikely to cause one of these major rivers to flood," says Richards. "To cause major river flooding, you need widespread, heavy rainfall that covers a broad area. We often find that river flooding causes much more damage because it is a more massive event and the area it encompasses is so large. Probably one

of the most dramatic floods we've had in the last century was in 1993 when major portions of nine states in the Midwest were flooded for two to six months as the result of continuous, intense rainfall over a broad area." Melting snow, although it doesn't melt as fast as intense rain can fall, also can contribute to river flooding because it melts uniformly over an entire basin.

"It is important for people to recognize that floods can happen at any time and in any state," Richards continues. "Certainly there are some states that are more prone to flooding than others and certainly there are some seasons that are more likely to cause flooding. One of the things that we are concerned about at the National Weather Service is people becoming complacent."

Richards cites the example of the devastating 1997 flooding in the Red River Valley in the Dakotas in which the conditions leading to flooding were apparent several months ahead of time. The National Weather Service warned area residents to expect record flooding, the Governor issued statements in the media urging people to buy flood insurance, and FIA conducted a special advertising effort explaining the threat and encouraging people to buy flood insurance. While many people responded and purchased flood insurance, the majority of flood victims were uninsured when the Red River crested and caused hundreds of millions of dollars in damage. "People just didn't believe it was going to happen to them," explains Richards.

Although some portions of the country are more flood-prone than others, according to Richards no one should be complacent about flooding. "Mother Nature can do things that are unpredictable and capricious, and even those areas that seem most unlikely to flood are susceptible. It becomes a matter of what sort of odds do you want to play? What is your tolerance for risk? If your tolerance is low, then you ought to have flood insurance no matter where you are. If you want peace of mind, if you want to be sure that you are not going to have to deal with that

Once You've Got 'Em, Keep 'Em!

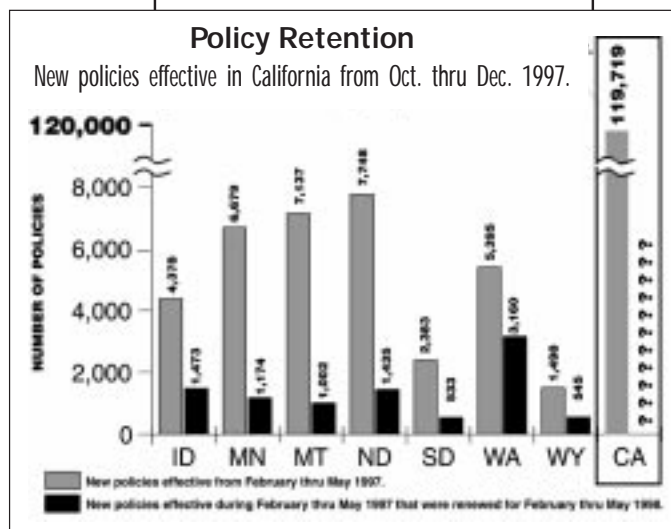
Keeping an insurance policy on the books is easier and less expensive than writing a new policy. Yet, the number of flood insurance policies is dropping in many states hit by devastating floods as a result of the 1997 snowmelt in the upper Midwest. One reason for this drop is a changing perception of risk. Now that the snowmelt threat has passed, some people may believe there is no longer a flood risk and, therefore, no reason to keep their flood insurance policies. It's up to you to ensure that people understand there is still a risk, and that it's smart to renew their flood insurance policies.

Where Are Policy Renewals Down?

There are seven states where policy retention is very low: Idaho, Minnesota, Montana, North Dakota, South Dakota, Washington, and Wyoming. How serious is the drop in policies? In North Dakota, there were 7,748 policies in place from February through May 1997. One year later, only 1,435, or about 20 percent, of those policies had been renewed.

Of major concern is the high number of flood insurance policies

purchased in California as a result of El Niño. 119,719 new policies were written in California. From October through December 1997. Now that El Niño has passed, how many of these policies will be renewed?



What Can You Do?

Research shows that people trust their agent for reliable information about insurance. You can help your clients understand that they should renew their flood policies because floods can happen anywhere.

Retain your policyholders by explaining flood insurance benefits and flood risks:

- Homeowners insurance doesn't cover damage from flooding.
- Floods are the most common natural disaster.
- Changing weather patterns are causing floods in places no one previously considered high-risk.

- You don't need to live near water to be flooded.
- Federal disaster assistance is available only when a disaster is declared.
- Even if you get disaster assistance for flood damage, you may be required to buy flood insurance as condition for receiving that assistance.
- Flood insurance claims are paid even if a disaster is not declared.

- About 25 percent of all flood insurance claims paid are outside of high-risk areas.
- The average **annual** premium for flood insurance is less than the average **monthly** payment for a disaster home loan.
- Flood insurance premiums can be paid easily with a Visa or MasterCard.

Take Action Today

You are one of the first people contacted for assistance after a flood hits. Is that the time you want to tell your clients that they are not covered for flood damage?

Talk to your clients about their flood risk and remind them that with floods, you can never say, "Never." It's not enough to send a renewal notice. Buying flood insurance and maintaining the coverage is one of the best ways to recover from a flood. After all, there is always a good chance that a flood will threaten again. And when it does, you and your clients will be glad that they have a flood insurance policy to help them recover. **W**

Hydrology 101

calamity in your life, there is almost no place in this country where you can go without buying flood insurance."

According to Richards, mitigation efforts can help minimize losses caused by flooding, but no system is guaranteed to prevent them. "In terms of hydrology, it is unlikely that we are ever going to engineer structures that provide complete safety from flooding," he asserts. "We have to be a little more astute in terms of how we manage that risk. You can build levees and dams and waterways that kick in when there is extreme flow, but I will guarantee that over our lifetime we will see parts of this country where—whatever engineered structures we have in place—we will be overwhelmed by nature. In those high-risk areas, it almost is irrational to believe that we are going to be able to prevent the impacts of floods. In high-risk areas, we need to respect nature and simply not build infrastructures that we can't tolerate to lose when the flooding does come. Mother Nature is going to do what she is going to do." **W**

Research Identifies Factors Impacting the Decision to Sell Flood Insurance

Understanding the processes that influence the purchase of flood insurance is no simple task. However, as part of the Cover America campaign, we continuously conduct research to better understand why people do or don't buy flood insurance, as well as to assess attitudes about and awareness of flood insurance, FEMA, and the NFIP.

Our research has pointed to a number of factors that influence people's decisions to purchase flood insurance. The findings suggest that insurance agents play a key role not only in distributing flood insurance, but also in informing their clients about flood insurance and flood risk.

To better understand what influences agents to sell flood insurance or recommend it to their clients, a survey was conducted during July and August 1998. The 400 agents interviewed included a random sample of 300 agents who sell flood insurance and an additional random sample of 100 who do not. They were asked, in a 20-minute survey, about their perceptions and attitudes regarding flood risk, current sales practices, flood insurance coverage, policy writing, benefits of flood insurance, and barriers to selling flood insurance. Key findings from this research are presented below.

Research Findings

- **Agents' decisions to sell or recommend flood insurance are largely related to their perceptions of their clients' flood risk.**

Forty-one percent of agents who sell flood insurance say that they always recommend flood insurance to their clients. A similar number, 44 percent, do not recommend flood insurance when they believe that their clients are not at risk for flooding.

- **Many agents don't believe flood insurance is necessary unless their clients are in a high-risk area.**

Thirty-four percent of agents who sell flood insurance, and 47 percent of those who don't, believe that clients outside of a floodplain do not need flood insurance.

- **Perceived flood risk is a key factor in why agents' customers do not buy flood insurance.**

Nearly half (48 percent) of agents who sell flood insurance say that people do not have flood insurance because they do not believe they will be flooded.

- **Opinions vary on whether or not flood insurance is a wise investment.**

It is not surprising that nine in ten flood insurance agents (91 percent) understand that flood insurance is a wise investment for their clients. However, a significant portion (42 percent) of agents who do not sell flood insurance do not think it's a wise investment.

- **Perceptions that flood insurance is a good investment are connected to its price.**

Of those who sell flood insurance, 65 percent feel that it is fairly priced. Yet, more than half (57 percent) of agents who do not sell flood insurance believe it is not fairly priced.

- **Many agents report that clients believe that flood insurance is unreasonably priced.**

Forty-four percent of agents who sell flood insurance and 34 percent of agents who do not sell flood insurance say that clients believe that flood insurance is not worth the expense or that they cannot afford it.

- **The differences in opinions about coverage may inhibit the sale of flood insurance.**

While four out of five flood insurance agents (80 percent) believe that flood insurance offers excellent coverage against flood damage, only 57 percent of those who do not sell flood insurance believe the coverage is excellent.

- **Agents who sell flood insurance know more about the product.**

In addition to recognizing flood risk, agents who sell flood insurance are well informed about the flood insurance product and what flood insurance covers. Agents who do not sell flood insurance are considerably less certain of their knowledge about flood insurance. Usually at least 30 percent, and sometimes as many as 75 percent, responded "Don't know" to questions pertaining to flood insurance coverage, programs, and policies.

- **Agents report that flood insurance is difficult to write.**

To many flood agents, flood insurance appears to be difficult to write because of the FEMA Elevation Certificate. Three-quarters (73 percent) of flood agents feel that obtaining an Elevation Certificate is a difficult and time-consuming task.

- **Not enough agents know about the Preferred Risk Policy (PRP).**

Agents who sell flood insurance have a moderately high level of knowledge about the potential extent of coverage of the PRP.

Only three in five (60 percent) correctly agreed with the statement that "Ninety percent of homeowners could qualify for a preferred risk flood insurance policy."

And only three in four (73 percent) agreed with the statement that

What Exactly Is a 100-Year Flood?

The phrase “100-year flood” has caused much confusion over the years. Many mistakenly believe that it is a flood that occurs every 100 years. However, the phrase really means a flood that has a 1-percent chance of occurring in any given year.

Floods are classified according to their frequency and depth. For instance, there are 10-year, 25-year, 50-year, 100-year, and 500-year floods. A 100-year flood, although less frequent than a 10-year flood, is deeper—and far more destructive. For this reason, the 100-year flood is now more commonly called the “base flood” (see related article on page 11).

The chart below shows the statistical chances of flooding a building located in one of these higher

Period of Time	Chances of Being Flooded			
	10-yr Flood	25-yr Flood	50-yr Flood	100-yr Flood
1 year	10%	4%	2%	1%
10 years	65%	34%	18%	10%
20 years	88%	56%	33%	18%
30 years	96%	71%	45%	26%
50 years	99%	87%	64%	39%

risk flood areas has over different periods of time.

Buildings located in 100-year flood areas are required to have flood insurance as a condition of receiving a federally backed mortgage loan or home equity loan. Given that many mortgages have a repayment period of 30 years, you may want to point out that buildings in areas subject to a 100-year flood have a 26 percent chance of experiencing that flood during the life of the loan. However, during that same period, there is only a 4 percent chance of a fire.

So, the next time people say that they live in a 100-year floodplain, and the last 100-year flood was three years ago, so they don’t have to worry about another flood like that for the next 97 years, use this information to explain the real meaning of a 100-year flood. **W**

Research Identifies Factors

“There is an easy-to-write low-risk flood insurance policy that covers homes in low-to-moderate flood risk areas.” A full quarter are unaware of this policy.

A better understanding of the PRP, and about risks that their clients have for flood, may increase flood insurance distribution by agents who do not sell flood, and even among those who do. In fact, 81 percent of those who do not sell flood insurance (and 90 percent of those who do) say that they would be more likely to recommend flood insurance to their clients if they knew that there was an easy-to-write flood policy (the Preferred Risk Policy).

- **Many flood agents don’t realize that the NFIP will reimburse them for 50% of their media costs for flood insurance advertisements.**

Further hindering the sale and advertising of flood insurance is the

lack of knowledge about the benefits of the Co-op Advertising Program offered by the NFIP. Only 38 percent of the flood insurance agents are aware that the NFIP will reimburse them for half of their media costs for running approved flood insurance ads.

Spreading the Word about Flood Insurance

Although there are some stereotyped notions about why more people don’t have flood insurance (for example, perceived difficulties in writing or obtaining flood insurance policies), it is important to recognize the role that agents play in the distribution process.

Other research we have conducted has clearly suggested that clients view their agents as critical in providing information both about what their insurance needs are and about what different types of insurance are available. Agents are considered by

their clients to be trusted sources of information.

It is no leap to suggest that the more information agents have, the more information they can provide to their clients. The Cover America research findings will help us improve our communication efforts to insurance agents so they better understand flood risk, the coverage that flood insurance provides, the availability of the relatively low-cost and easy-to-write Preferred Risk Policy, and the NFIP Co-op Advertising Program.

Clearly, flood insurance agents are knowledgeable about the flood insurance product, but there is plenty of opportunity for improvement. Among agents who do not sell flood insurance, this opportunity is even greater. It may be that dispelling some of the stereotypes and communicating the facts can motivate those agents to rethink their decision not to sell flood insurance. **W**

MAJOR FLOODS AND FIELD NOTES

Figures as of October 31, 1998

START DATE/ END DATE	STATE/ EVENT	POLICIES IN FORCE (STATEWIDE AREA)	POLICIES IN FORCE (AFFECTED AREA)	LOSSES PAID	DOLLARS PAID IN LOSSES	PERCENT OF LOSSES CLOSED
JUN 12, 1998 JUN 16, 1998	MASSACHUSETTS GENERAL FLOODING	36,101	16,005	269	\$2,177,514	95.2%
JUN 24, 1998 JUL 1, 1998	OHIO GENERAL FLOODING	33,940	4,784	347	\$7,302,589	97.9%
JUN 26, 1998 JUL 1, 1998	WEST VIRGINIA GENERAL FLOODING	18,229	8,194	294	\$5,214,558	96.0%
JUL 27, 1998 AUG 1, 1998	MISSOURI GENERAL FLOODING	22,030	591	0	—	66.7%
AUG 6, 1998 AUG 10, 1998	WISCONSIN GENERAL FLOODING	12,178	3,130	489	\$4,397,439	84.1%
AUG 26, 1998 AUG 28, 1998	NORTH CAROLINA HURRICANE BONNIE	76,975	43,251	1,389	\$11,660,616	66.4%
AUG 27, 1998 AUG 29, 1998	VIRGINIA HURRICANE BONNIE	64,319	17,191	3	\$18,184	80.4%
SEP 3, 1998 SEP 5, 1998	FLORIDA HURRICANE EARL	1,677,866	25,607	154	\$2,042,890	73.0%
SEP 10, 1998 SEP 16, 1998	TEXAS GENERAL FLOODING	296,429	117,751	1,881	\$27,510,081	52.4%
SEP 11, 1998 SEP 16, 1998	LOUISIANA GENERAL FLOODING	336,832	269,593	2,571	\$20,439,264	63.0%
SEP 21, 1998 SEP 23, 1998	PUERTO RICO HURRICANE GEORGES	43,757	43,757	208	\$2,364,416	11.9%
SEP 24, 1998 SEP 26, 1998	FLORIDA-KEYS HURRICANE GEORGES	1,677,866	36,644	162	\$1,705,398	15.7%
SEP 27, 1998 OCT 2, 1998	ALABAMA HURRICANE GEORGES	33,373	22,367	303	\$4,851,171	18.9%
SEP 27, 1998 OCT 2, 1998	LOUISIANA HURRICANE GEORGES	336,832	242,696	79	\$596,464	26.7%
SEP 27, 1998 OCT 2, 1998	MISSISSIPPI HURRICANE GEORGES	40,652	22,045	357	\$6,034,446	34.1%
SEP 27, 1998 OCT 2, 1998	FLORIDA-PANHANDLE HURRICANE GEORGES	1,677,866	64,055	127	\$1,114,384	21.1%
OCT 17, 1998 OCT 27, 1998	TEXAS GENERAL FLOODING	296,429	122,272	29	\$669,940	2.6%

MAJOR FLOODS AND FIELD NOTES

Education and Awareness Important to Flood Insurance Industry

Elizabeth Sharpe, American Bankers Insurance Group

Nothing is comparable to the damage that rising waters can cause, and no one knows this better than those personally affected by a flood. Fortunately, those who experience this type of devastation can find some security in a flood insurance

policy. My younger sister had recently moved to the coast of North Carolina and was immediately confronted with the threat of a hurricane. As we listened to the weather reports and watched the images on the Doppler radar, it became evident that she would need to

furniture, most of her clothing, and other household items.

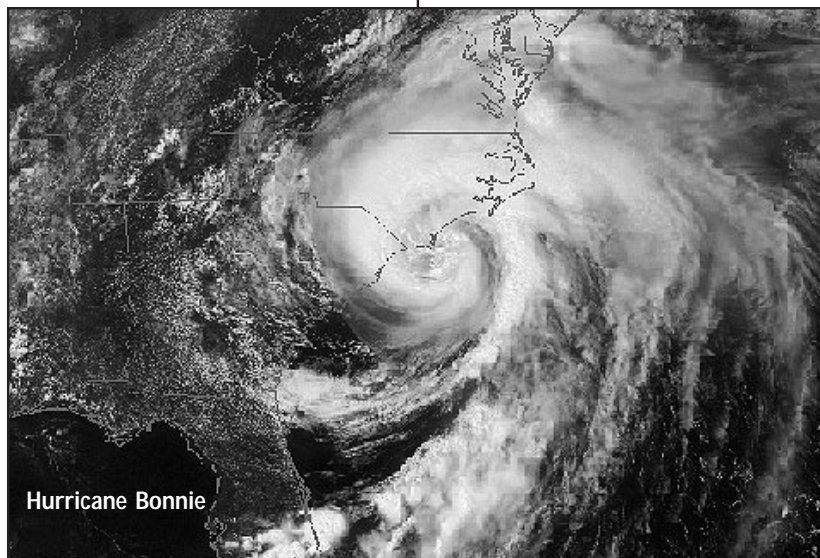
When she returned to her home, the property had been flooded. A fallen tree had broken the glass doors in the rear of the home, and water had flowed onto the carpet indoors. The furniture had been spared, but her emotions had not. She did not have flood insurance.

Although disheartening, this account is minor compared to the images broadcast on the nightly news documenting the flooding in West Virginia, southern Texas, Florida, and other areas across the country. Many people have lost their entire homes, even their lives, due to flooding. It is an issue that needs to be taken very seriously.

The best protection against a flood is a flood insurance policy. But many people do not realize the importance of flood insurance until confronted with disaster.

Awareness is the key to making an industry such as flood insurance work. Advertising, marketing, and education are essential focus points for the flood insurance industry. We are providing an invaluable service that, for our customers, will reflect some positive light on an overwhelmingly negative experience. We can only hope that our customers will take advantage of its availability. **W**

Elizabeth Sharpe is a Customer Service Representative for the Flood Department at the Scottsdale, Arizona, office of American Bankers Insurance Group. She has been working for American Bankers since last summer. Prior to joining American Bankers, she worked for 2 years, first as a CSR and then as a marketing assistant, with Integon Insurance, an automobile insurance carrier based in North Carolina.



policy. However, education and awareness regarding flood insurance and flood activity are extremely important.

My experience with flood insurance was virtually nonexistent before I began working for American Bankers Flood Service Center last year. However, in the short time since I have been introduced to flood insurance, I have gained a tremendous appreciation and respect for this valuable commodity.

This appreciation began with the onset of Hurricane Bonnie last August.



evacuate. She packed a few valuables in her car but was forced to leave behind her brand new living room

JUST AROUND THE BEND...

Please contact the regional offices listed on the detachable telephone number sheet on the back cover for specific information on these events.

STATE	EVENT	CITY	DATE
Arizona	Agent & Lender Seminar	Scottsdale	August 10
California	Agent & Lender Seminar	Sacramento	March 12
	Agent & Lender Seminar	Bakersfield	April 20
	Agent & Lender Seminar	Encinitas	May 1
	SITE Annual Meeting	San Diego	June 12-17
	Agent & Lender Seminar	Orange	July 22
	NOAA Coastal Zone Conference	San Diego	July 24-30
	Agent & Lender Seminar	Monterey	September
	NAII Annual Conference	San Diego	Oct. 31-Nov. 4
	NAIC Winter National Meeting	San Francisco	December 11-15
Colorado	Agent Workshop	Golden	March 17
	National Flood Conference	Denver	May 16-19
	PIA Annual Conference	Denver	August 6-9
Connecticut	Agent Workshop	Norwich	June 2
	Agent Workshop	Norwalk	June 3
	Agent Workshop	Wethersfield	June 4
Florida	National Hurricane Conference	Orlando	March 29-April 2
	Governor's Hurricane Conference	Tampa	June 7-11
	NCOIL Annual Meeting	Orlando	November 19-21
Georgia	NAIC Fall National Meeting	Atlanta	October 2-6
Illinois	Agent Workshop	Carbondale	March 23
	Agent Workshop	Springfield	March 24
	Agent Workshop	Moline	March 25
	Agent Workshop	Metro Detroit	March 30
Kansas	Lender Seminar	Hays	March 23
	Lender Seminar	Wichita	March 24
	Lender Seminar	Lawrence	March 25
Maine	Agent Workshop	Portland	April 22
Massachusetts	Agent Workshop	Braintree	April 28
	Lender Seminar	Milford	May 13
	Agent Workshop	Braintree	May 26
	Agent Workshop	Braintree	June 30
	Agent Workshop	Braintree	July 30
	Agent Workshop	Braintree	August 27
	Agent Workshop	Braintree	September 24
	MBA Annual Conference	Boston	October 10-13
Michigan	Agent Workshop	Detroit	March 30
Minnesota	Agent Workshop	Mahnomen	May 3
	Agent Workshop	St. Cloud	May 4
	Agent Workshop	Morton	May 5
	Agent Workshop	Rochester	May 6
Missouri	NAIC Summer National Meeting	Kansas City	June 5-9

JUST AROUND THE BEND...

STATE	EVENT	CITY	DATE
Nevada	Agent & Lender Seminar	Minden	June 9
	NAIW Annual Conference	Las Vegas	June 13-16
	IIAA Annual Conference	Las Vegas	Sept. 27-Oct. 1
New Jersey	Agent Workshop	Ocean City	March 18
Oregon	ASFPM Annual Conference	Portland	May 22-28
Rhode Island	Agent Workshop	Warwick	June 10
	Agent Workshop	Warwick	August 17
	Agent Workshop	Warwick	September 2
Tennessee	Lender Seminar	Memphis	March 17
	Agent Workshop	Memphis	March 18
	Lender Seminar	Chattanooga	March 31
	Agent Workshop	Chattanooga	April 1
Texas	RIMS Annual Conference	Dallas	April 11-16
	NAMIC Annual Convention	San Antonio	September 19-22
Washington	Lender Seminar	Bellevue	March 26
	Agent Workshop	Vancouver	April 15
	Lender Seminar	Vancouver	April 16
Washington DC	AIA Annual Conference		March 10
Wisconsin	Agent Workshop	Eau Claire	March 10
	Agent Workshop	LaCrosse	March 11

The following acronyms are used in Just Around the Bend...

AIA	American Insurance Association	NAMIC	National Association of Mutual Insurance Companies
ASFPM	Association of Floodplain Managers	NCOIL	National Conference of Insurance Legislators
IIAA	Independent Insurance Agents of America	NOAA	National Oceanic and Atmospheric Administration
MBA	Mortgage Bankers Association	PIA	Professional Insurance Agents of America
NAIC	National Association of Insurance Commissioners	RIMS	Risk Insurance Management Society
NAII	National Association of Independent Insurers	SITE	Society of Insurance Trainers and Educators
NAIW	National Association of Insurance Women		

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